AUGUST 2023

SOX 404 DISCLOSURES

A 19-YEAR REVIEW

2004 - 2022

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INTRODUCTION

In response to the collapse of both Enron and WorldCom, congress passed the Sarbanes-Oxley Act of 2002 (SOX). The declared purpose of SOX is to “protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes.”

Section 404 of SOX (SOX 404) requires companies to implement, review and certify the effectiveness of a company’s internal controls over financial reporting (ICFR). In other words, companies must determine if their ICFR are adequate to produce financial statements that are complete, accurate, and free from material misstatement. These assessments are otherwise known as internal control reports that are required within company annual reports.

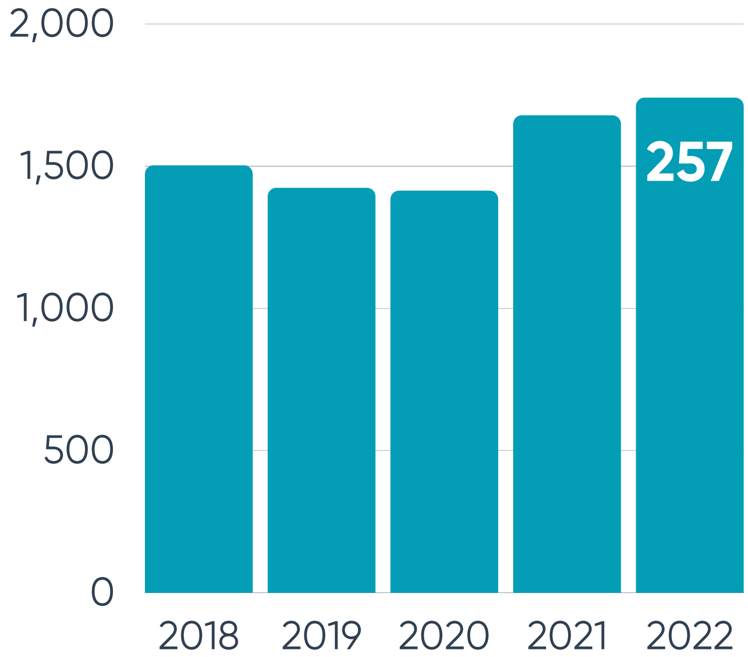
SOX 404 has two requirements: SOX 404(a) requires management to assess a company’s ICFR, while SOX 404(b) requires a registered public accountant to attest to the management’s report.

The requirements apply to issuers based on filer status, as determined by public float and revenue. Generally, all filer statuses are required to maintain ICFR and have management assess and report on ICFR effectiveness. Large accelerated and accelerated filers also require an auditor attestation where their independent auditor attests to management’s assessment of ICFR. However, smaller companies identifying as non-accelerated filers are required to have only a management report on ICFR effectiveness and are not required to obtain an auditor attestation.

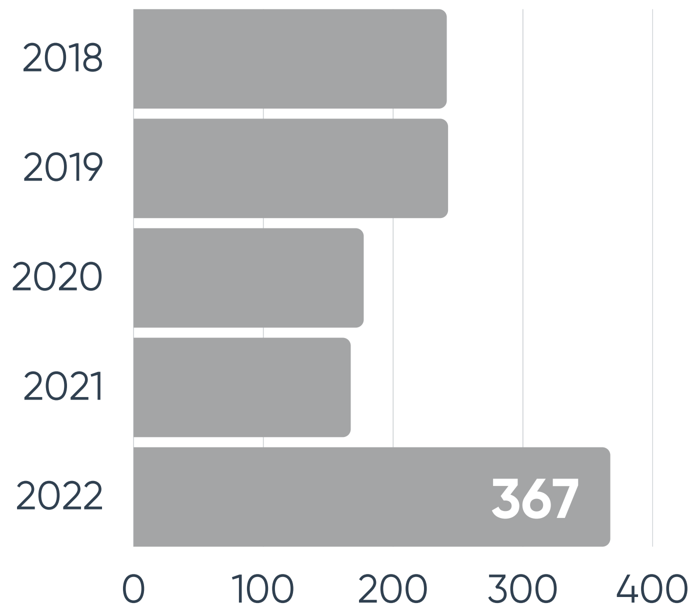
Aligning with the effective implementation dates of the SOX requirements, this report looks at ICFR auditor attestations beginning in 2004 and management reports on ICFR beginning in 2007. Management reports are further divided into two groups: all management reports and management-only reports.

EXECUTIVE SUMMARY

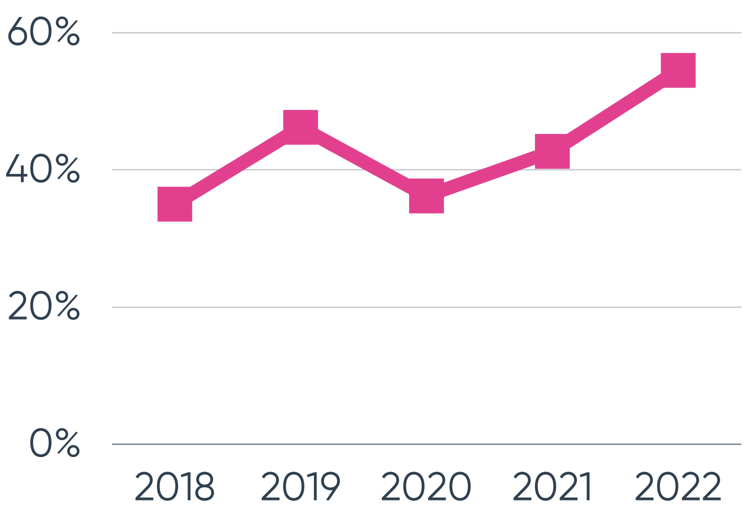
The total number of **adverse ICFR auditor attestations** rose to 257 in FY2022, representing a **21% increase** from the previous year.



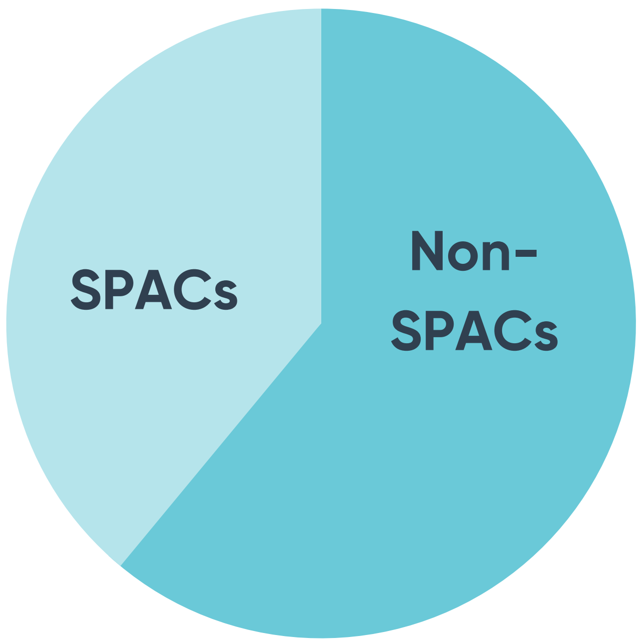
The number of companies that filed an adverse disclosure and **did not issue an ICFR assessment the following year increased 120%** in FY2022.



In FY2022, **information technology issues** were cited in **54.5%** of adverse auditor attestations, the top issue cited for the first-time in the last five years.

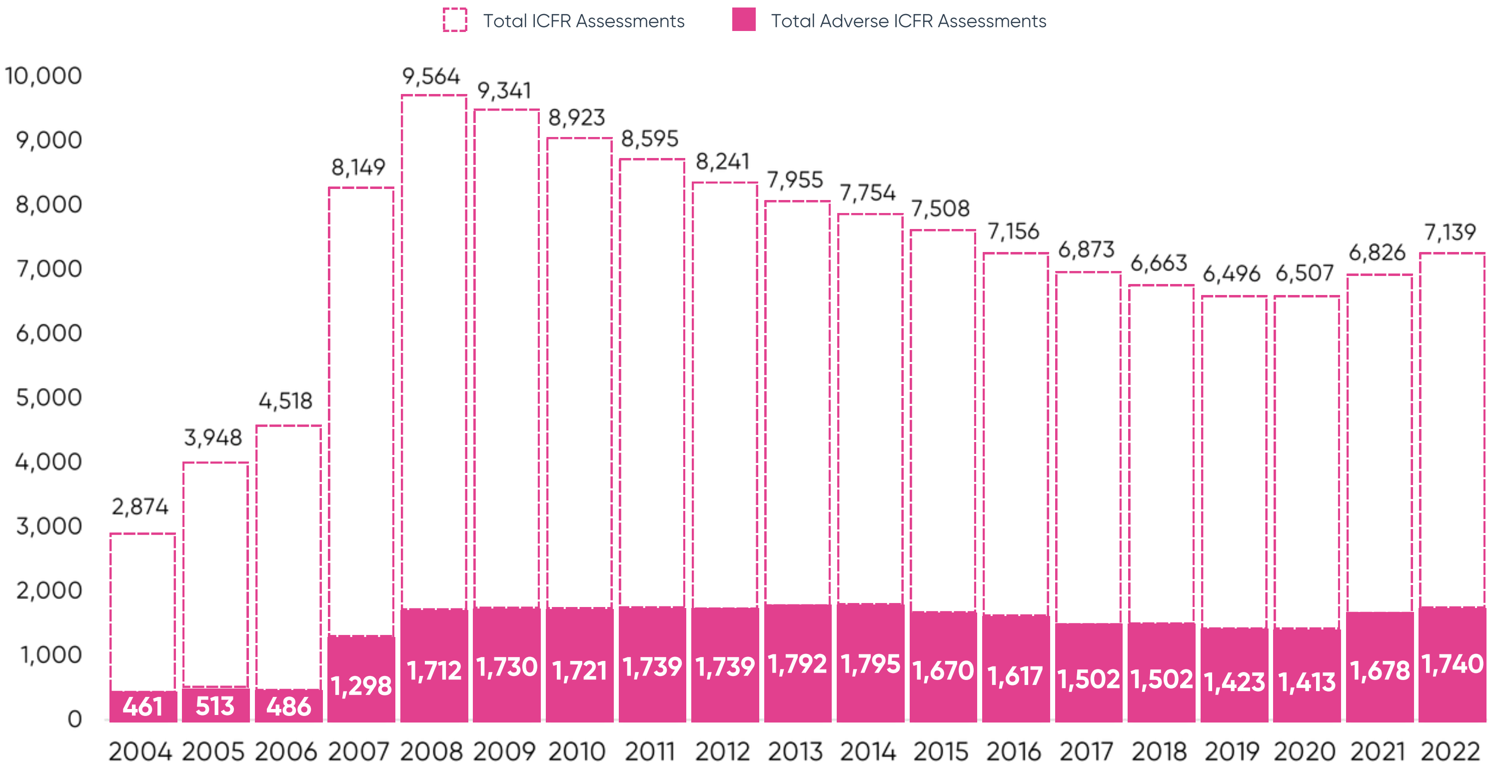


SPACs comprised **nearly 40%** of all **first adverse ICFR disclosures** in FY2022.



OVERVIEW

Total ICFR Assessments



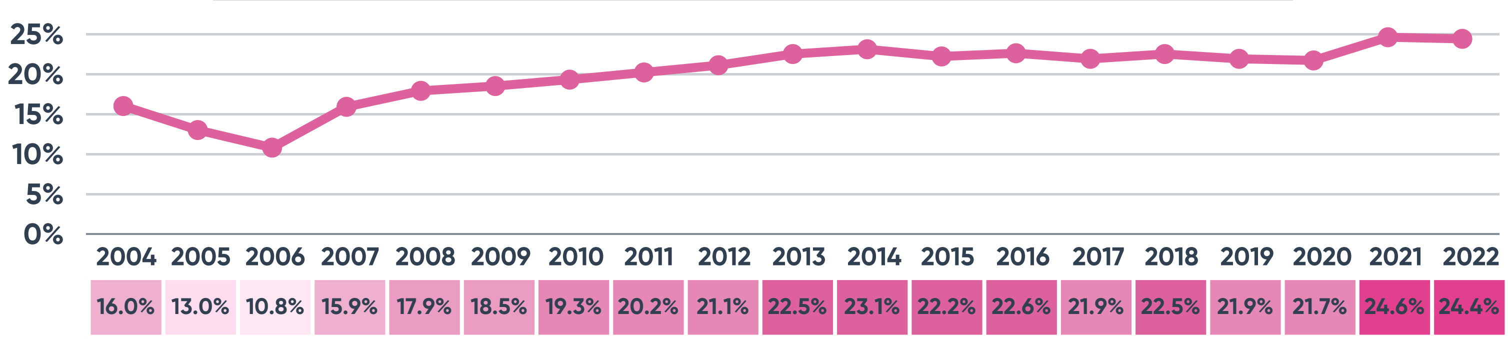
In regulation with SOX 404(a), all filer statuses are generally required to provide management reports assessing the company's internal controls over financial reporting (ICFR) effectiveness. Therefore, the total number of ICFR management reports provides an overall analysis of all SOX 404 assessments.

Total adverse ICFR assessments peaked at 1,795 during fiscal year (FY) 2014, representing 23.1% of all disclosures filed that year. Since then, the total number of adverse ICFR assessments has steadily declined. However, this trend reversed during FY2021, where the total number of adverse ICFR assessments increased by 19% from FY2020. As a result, the adverse disclosure rate reached an all-time high of 24.6% in FY2021.

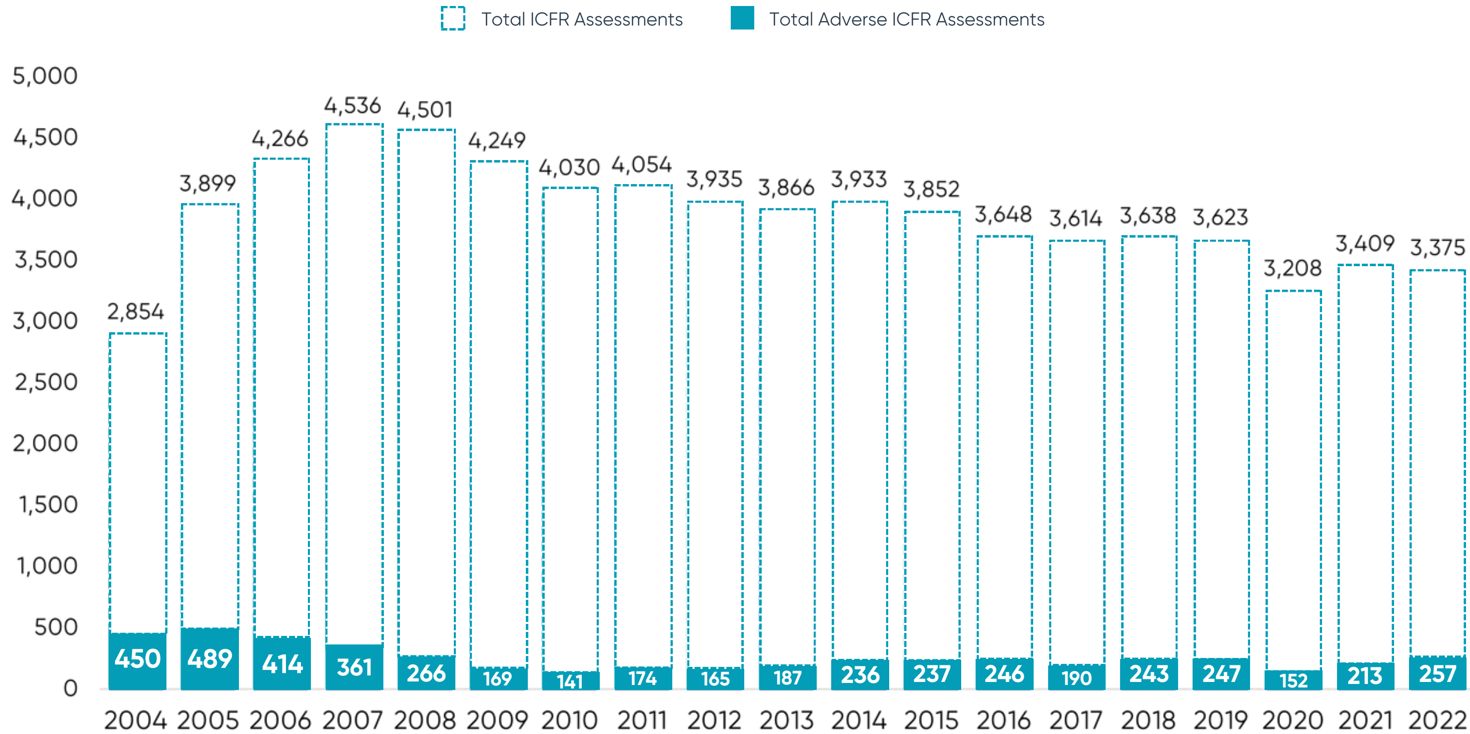
Additionally, total SOX 404 disclosures increased by 5% between FY2020 and FY2021, after consistent annual decreases since FY2009. The increase in both total SOX 404 disclosures and adverse ICFR assessments in FY2021 can be partially attributed to the SPAC boom during that period.

The total number of companies that filed an adverse ICFR management report increased to 1,740 during FY2022 - representing a 4% increase from FY2021. The percentage of companies that filed an adverse ICFR disclosure during FY2022 was 24.4%, a 0.2 percentage point decrease from the year prior.

Adverse ICFR Disclosure Rate



Total ICFR Auditor Attestations

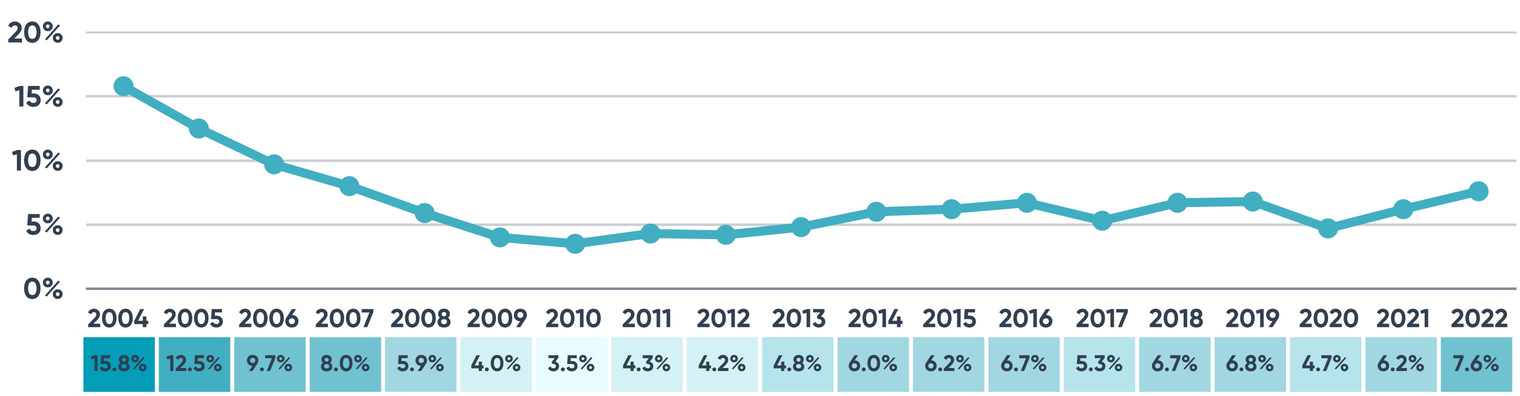


External ICFR auditor attestations are required for accelerated and large accelerated filers under SOX 404(b). Evaluating ICFR auditor attestations gives insight into the internal controls effectiveness of larger companies.

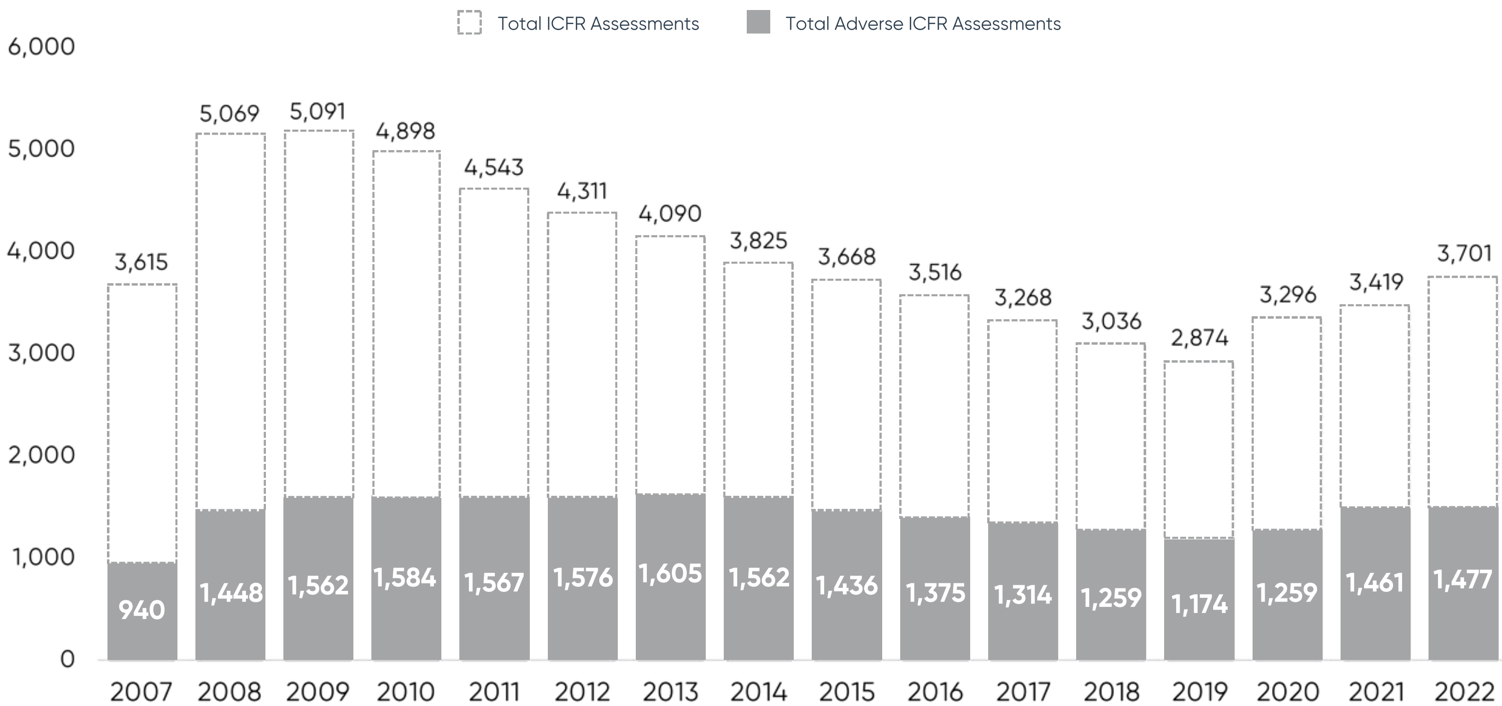
The total number of companies that received an adverse ICFR auditor attestation increased to 257 during FY2022 - representing a 21% increase from FY2021. Contrarily, the total number of auditor attestations decreased by 1% in FY2022. As a result, the percentage of companies that received an adverse ICFR auditor attestation during FY2022 rose to 7.6%. This represents a 1.4 percentage point increase from the previous year and the highest rate seen since FY2007.

The percentage rate of adverse ICFR auditor attestations was highest the first year the SOX 404 act was implemented in FY2004 at 15.8%. That rate steadily declined each year until FY2011. Between FY2011 and FY2019, the adverse ICFR rate for auditor attestations fluctuated between 4.2% and 6.8%. After a steep decline in FY2020, the adverse ICFR auditor attestation rate has been steadily increasing each year.

Adverse ICFR Auditor Attestation Rate



Total ICFR Management-Only Reports

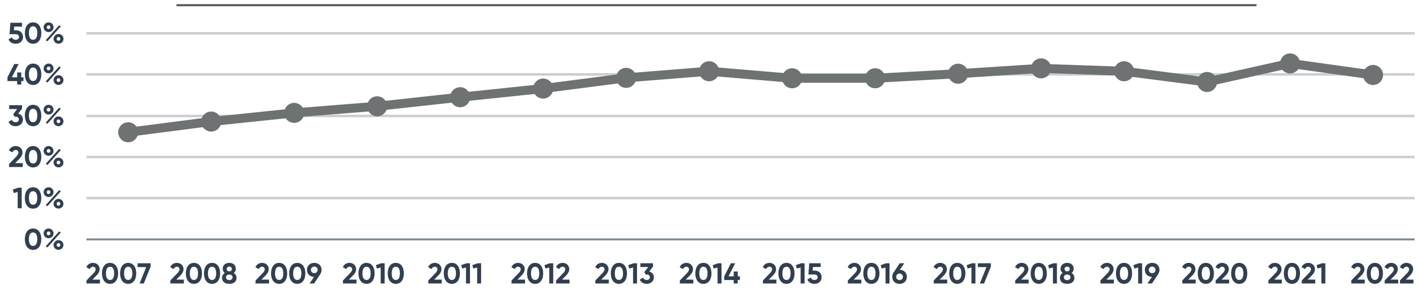


Non-accelerated filers were required to begin filing ICFR management assessments (but not auditor attestations) for all fiscal years after December 15, 2007. Therefore, an analysis of companies that file only management reports provides a focus on ICFR disclosures for smaller companies.

The total number of companies that filed an adverse ICFR management-only report increased to 1,477 during FY2022 - representing a 1% increase from FY2021. Meanwhile, the total number of management-only reports filed during FY2022 increased by 8% from the year prior. Consequently, the rate of adverse ICFR management-only reports decreased from 42.7% in FY2021 to 39.9% in FY2022.

Since FY2014, both total and adverse ICFR management-only reports decreased annually. However, this trend shifted in FY2020 as both total and adverse ICFR management-only reports increased by 15% and 7%, respectively. The increase in adverse reports is partially attributed to an increase in the overall number of companies eligible to file a management-only report under SOX 404(a), corresponding with amendments to the SEC's accelerated filer definition that became effective in April 2020. Since then, both total and adverse ICFR management-only reports have continued to increase for a second consecutive year in FY2022.

Adverse ICFR Management-Only Report Rate



26.0%	28.6%	30.7%	32.3%	34.5%	36.6%	39.2%	40.8%	39.1%	39.1%	40.2%	41.5%	40.8%	38.2%	42.7%	39.9%

ADVERSE ICFR in FIRST SOX 404 ASSESSMENT

First-time assessments of internal controls over financial reporting have historically had a higher rate of adverse disclosures than proceeding assessments. On average, an ICFR disclosure is three times more likely to be classified as an adverse disclosure during a first-time assessment.

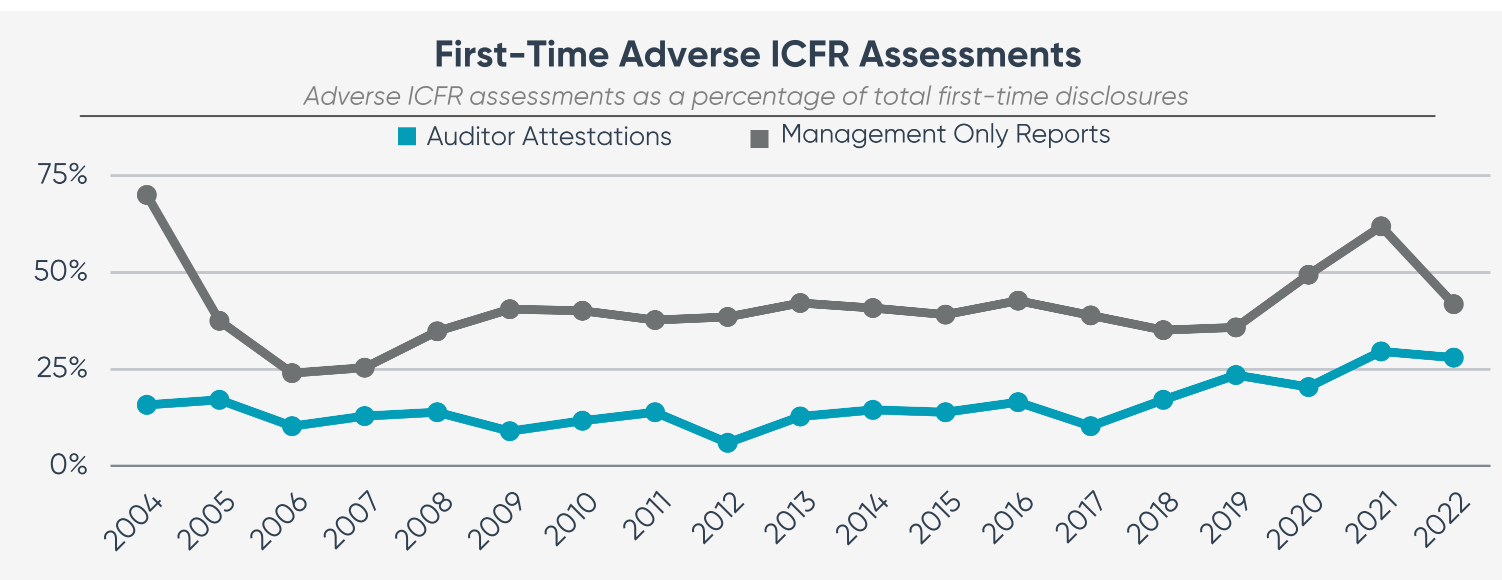
% Adverse First-Time ICFR Assessments

Fiscal Year	First-Time ICFR Disclosures	First-Time Auditor Attestation	First-Time Management Only Reports
2022	**38.2%**	**28.0%**	**41.8%**
2021	55.5%	29.6%	61.9%
2020	43.2%	20.4%	49.4%
2019	32.6%	23.5%	35.8%
2018	31.4%	17.1%	35.1%
2017	33.3%	10.3%	38.9%
2016	37.5%	16.5%	42.7%
2015	32.7%	13.9%	39.1%
2014	34.6%	14.5%	40.8%
2013	35.6%	12.8%	42.1%
2012	30.8%	6.0%	38.5%
2011	31.3%	13.9%	37.7%
2010	33.6%	11.7%	40.1%
2009	36.5%	9.0%	40.5%
2008	31.8%	13.9%	34.8%
2007	23.5%	12.9%	25.4%
2006	13.7%	10.3%	24.0%
2005	17.6%	17.1%	37.5%
2004	15.9%	15.8%	70.0%

Since the implementation of SOX 404 in 2004, the rate of first-time adverse ICFR assessments has more than doubled. In FY2021, over half of all first-time ICFR disclosures cited ineffective internal controls. In FY2022, that rate fell to 38.2%.

On average, management-only reports have a 2.6 times higher rate of first-time adverse ICFR assessments than auditor attestations. These companies are often small, with fewer resources to devote to internal controls. In FY2022, 41.8% of all first-time management-only reports cited adverse ICFR. In comparison, 28% of first-time auditor attestations cited ineffective internal controls.

In FY2021, the first-time adverse disclosure rate for management-only reports was 32.3 percentage points higher than adverse auditor attestations. This was the second largest difference in rates observed since before the implementation of disclosure requirements for non-accelerated filers. In FY2022, the gap between adverse disclosure rates decreased. Apart from FY2019, FY2022 saw the closest range in first-time adverse disclosure rates since FY2007.

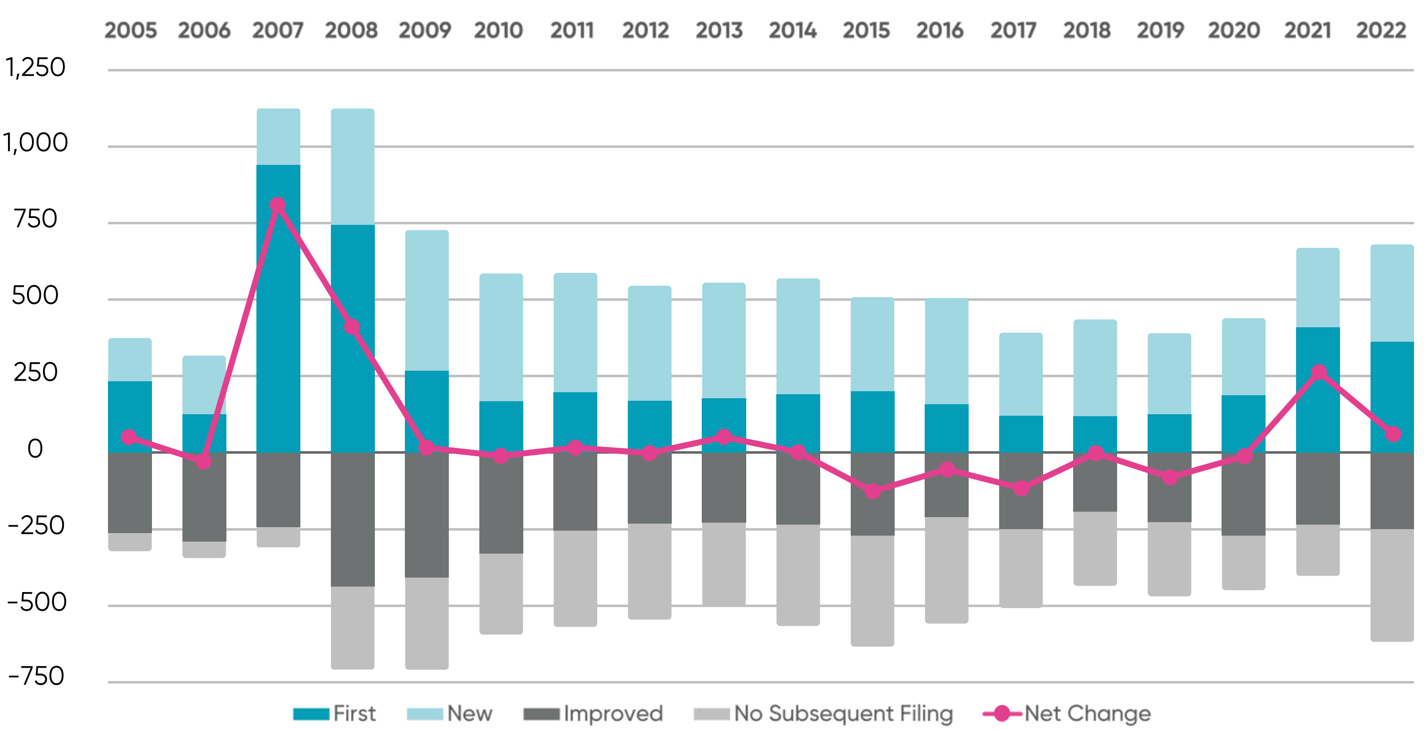


CHANGES IN ADVERSE ASSESSMENTS

The number of total adverse SOX 404 disclosures changes from one year to the next. This section looks at what contributed to the increase and attrition (decrease) in the number of adverse disclosures year-over-year. The changes are categorized into four groups.

First Adverse ICFR Disclosure	Companies that cited ineffective internal controls in their first ICFR disclosure.	Increase
New Adverse ICFR Disclosure	Companies that filed an effective ICFR disclosure or had no disclosure for the previous year and filed an adverse disclosure for the current year.	Increase
Adverse ICFR Improvement	Companies that filed an effective ICFR in the current year after filing an adverse ICFR disclosure the previous year.	Attrition
Adverse ICFR Disclosures with No Subsequent Filing	Companies that filed an adverse ICFR disclosure for the previous year and did not file an ICFR disclosure for the current year.	Attrition

Changes in Adverse ICFR Disclosures



FY2022 saw a net increase of 62 adverse ICFR disclosures from FY2021. Contributing to this net change was the attrition of 615 adverse disclosures and an addition of 677 new adverse disclosures between FY2021 and FY2022.

Apart from FY2018, adverse ICFR attrition outweighed adverse ICFR increases each year between FY2015 and FY2020. As a result, there was an overall decline in the number of adverse disclosures annually.

However, this trend reversed with a substantial net increase of 265 adverse ICFR disclosures in FY2021. Although the net change decreased 77% the following year, adverse disclosures continued to see positive net gains for a second fiscal year in FY2022.

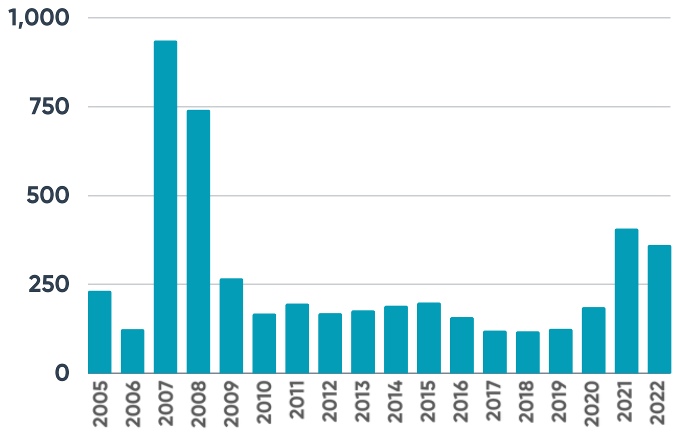
Adverse Disclosure Increases

Adverse ICFR Increase Distribution

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
First Adverse ICFR	62%	39%	83%	66%	37%	29%	33%	31%	32%	33%	39%	31%	31%	27%	32%	42%	61%	53%
New Adverse ICFR	38%	61%	17%	34%	63%	71%	67%	69%	68%	67%	61%	69%	69%	73%	68%	58%	39%	47%

Prior to FY2021, the majority of adverse disclosure increases were due to existing companies that filed a new adverse ICFR disclosure. However, this changed in FY2021 when first-time adverse ICFR assessments became the leading cause of adverse disclosure increases. In FY2022, 53% of adverse disclosures came from first-time ICFR assessments.

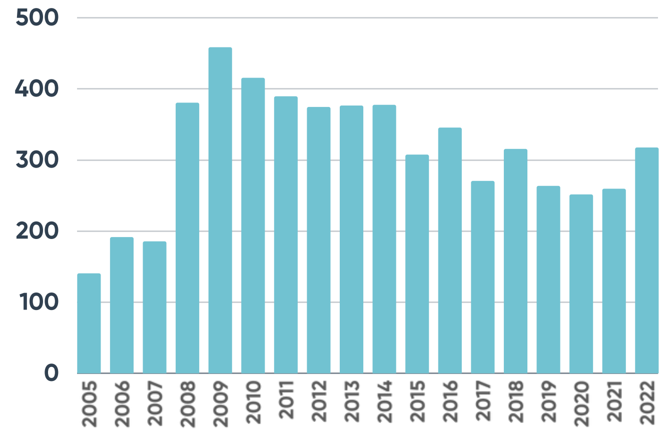
First Adverse ICFR Disclosure



In FY2022, the number of companies that filed an adverse disclosure in their first ICFR assessment declined to 360. This represents an 11% decrease from FY2021.

Companies with an adverse disclosure in their first ICFR assessment represented 21% of all adverse disclosures in FY2022. Additionally, nearly 40% of the first adverse ICFR assessments in FY2022 were attributed to SPACs.

New Adverse ICFR Disclosure



The number of companies that filed a new adverse ICFR disclosure rose to 317 in FY2022, a 22% increase from FY2021.

Companies that filed a new adverse disclosure represented 18% of all adverse ICFR assessments in FY2022.

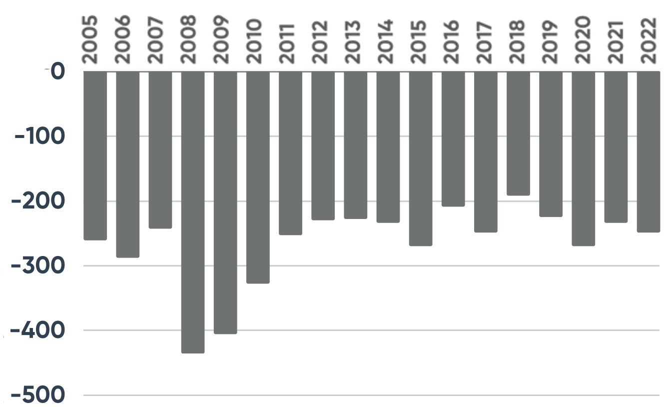
Adverse Disclosure Attrition

Adverse ICFR Attrition Distribution

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Adverse Improvement	82%	84%	79%	62%	57%	55%	45%	42%	45%	41%	43%	37%	49%	44%	48%	60%	58%	40%
No Subsequent Filing	18%	16%	21%	38%	43%	45%	55%	58%	55%	59%	57%	63%	51%	56%	52%	40%	42%	60%

Between FY2011 and FY2019, the leading factor of adverse ICFR disclosure attrition was companies that had no subsequent filing the year following an adverse disclosure. This trend changed during FY2020 when many companies improved their adverse ICFR assessments. However, during FY2022, 60% of adverse disclosure attrition was due to companies who filed an adverse disclosure in FY2021 and did not issue an ICFR assessment in FY2022.

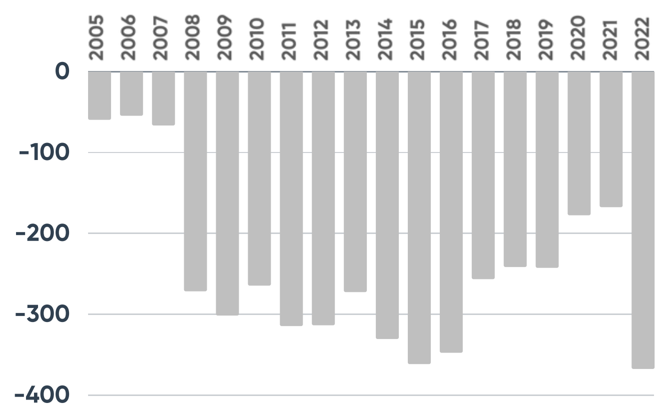
Adverse ICFR Improvement



In FY2022, the number of companies that improved their internal controls after filing an adverse ICFR disclosure the year before increased to 248. This represents a 6% increase from FY2021.

Only 15% of companies that filed an adverse disclosure in FY2021 saw improvements during FY2022.

Adverse ICFR with No Subsequent Filing



The number of companies that filed an adverse disclosure during FY2021 and did not issue an ICFR assessment for FY2022 spiked to 367. This represents a 120% increase from the number of companies that had no subsequent filing in FY2021, primarily attributed to SPACs.

Of the total companies that filed an adverse disclosure in FY2021, 22% did not file an ICFR report in FY2022. This was the highest percentage of companies with no subsequent filing seen over the 19-year period.

INTERNAL CONTROL ISSUES

Adverse internal control assessments include disclosures of the issues that caused, at least in part, the conclusion that a company's ICFR was ineffective. Multiple issues may be cited per assessment. Ideagen Audit Analytics defines 'internal control issues' as internal control weaknesses arising from deficiencies in the company's control structure and classifies these issues into 21 different categories.

ICFR Assessment Internal Control Issues

	Issue	% of Adverse Disclosures	# of Disclosures
FY2022 Top 5	**1.** Accounting personnel resources	67.6%	1,177
	2. Segregations of duties (personnel)	57.8%	1,006
	3. Inadequate disclosure controls	35.8%	623
	4. Information technology	22.4%	389
	5. Non-routine transactions	16.7%	291

In adverse ICFR management reports for FY2022, the most common internal control issue that contributed to the conclusion that ICFR was ineffective was the need for more highly trained accounting personnel. This issue was cited in 67.6% of all adverse ICFR disclosures for FY2022. The second most common issue was related to the segregation of duties associated with the design and use of personnel within an organization. These two issues are linked, as a lack of accounting personnel can inhibit proper controls over the segregation of duties.

These top internal control issues, along with inadequate disclosure controls, are commonly cited in management reports, appearing as the top three issues in each of the last five years.

FY2022 continued to see a rise in information technology control issues. The number of adverse disclosures that cited information technology issues as a contributing factor to the company's ineffective internal controls increased by 25% from FY2021.

Top 5 IC Issues in Adverse ICFR Assessments

Rank based on percent of total adverse disclosures referencing issue

Rank	Issue	2018	2019	2020	2021	2022
1	Accounting personnel resources	72.4%	77.6%	74.9%	71.7%	67.6%
2	Segregations of duties	62.9%	67.4%	63.8%	58.2%	57.8%
3	Inadequate disclosure controls	23.4%	28.5%	25.8%	27.2%	35.8%
4	Information technology	17.1%	20.2%	17.2%	18.6%	22.4%
5	Non-routine transactions	7.1%	8.1%	11.5%	19.8%	16.7%

Auditor Attestations Internal Control Issues

The most common internal controls issue cited by auditors in adverse ICFR auditor attestations for FY2022 was information technology, software, and/or security issues. This is the first time in the last five years that information technology was the number one internal controls issue for ICFR auditor attestations. The second most common internal controls issue was accounting personnel resources. Each of these issues was cited in over half of all adverse ICFR auditor attestations for FY2022.

Top 5 IC Issues in Adverse ICFR Auditor Assessments

Rank based on percent of total adverse disclosures referencing issue

Rank	Issue	2018	2019	2020	2021	2022
1	Information technology	35.0%	46.2%	36.2%	42.7%	54.5%
2	Accounting personnel resources	44.0%	50.6%	42.1%	48.8%	53.7%
3	Inadequate disclosure controls	19.8%	23.9%	21.7%	24.9%	39.7%
4	Segregations of duties	23.9%	30.4%	19.1%	32.9%	39.3%
5	Non-routine transactions	11.1%	7.3%	7.2%	13.6%	14.4%

Management-Only Reports Internal Control Issues

In adverse ICFR management-only reports for FY2022, the two most common internal controls issues that contributed to the conclusion that ICFR was ineffective was a need for more highly trained accounting personnel and segregation of duty issues. Management-only reports are primarily issued by smaller companies, potentially with less personnel overall and fewer resources to devote to accounting functions.

An ineffective or non-existent audit committee is a top issue unique to management-only ICFR reports. These smaller companies may lack the resources and personnel to perform audit committee duties to the extent required by SOX guidelines.

Top 5 IC Issues in Adverse ICFR Management-Only Reports

Rank based on percent of total adverse disclosures referencing issue

Rank	Issue	2018	2019	2020	2021	2022
1	Accounting personnel resources	77.7%	83.1%	79.0%	75.0%	70.0%
2	Segregations of duties	70.2%	75.1%	69.3%	62.1%	61.1%
3	Inadequate disclosure controls	24.1%	29.5%	26.4%	27.5%	35.0%
4	Insufficient audit committee	26.7%	25.4%	23.9%	19.8%	17.1%
5	Non-routine transactions	6.2%	8.3%	12.1%	20.5%	17.1%

ACCOUNTING ISSUES

Adverse internal control assessments include disclosures of the underlying issues that caused, at least in part, the conclusion that a company's ICFR was ineffective. Multiple issues may be cited per assessment. Ideagen Audit Analytics classifies accounting issues as internal control weaknesses arising from GAAP/accounting failures and classifies these issues into 28 different categories.

ICFR Assessment Accounting Issues

	Issue	% of Adverse Disclosures	# of Disclosures
FY2022 Top 5	**1.** Revenue recognition	9.0%	157
	2. Debt & equity	8.3%	145
	3. Accounts receivable, investments & cash	6.8%	118
	4. Subsidiary/affiliate issues	5.5%	95
	5. Liabilities	5.4%	94

In all adverse ICFR assessments for FY2022, the most common accounting issue that contributed to the conclusion that ICFR was ineffective concerned deficiencies in approach, understanding, or calculation associated with the recognition of revenue. This issue was cited in 9% of all adverse disclosures.

Following second were control issues relating to debt or equity securities. This issue gained severity within the last three years jumping from fifth in FY2018 and 2019 to the number one issue in FY2020 and 2021. This is related to the large number of special purpose acquisition companies (SPACs) that had to restate financials to correct issues related to accounting for debt & warrants.

Top 5 Accounting Issues in Adverse ICFR Assessments

Rank based on percent of total adverse disclosures referencing issue

Rank	Issue	2018	2019	2020	2021	2022
1	Revenue Recognition	9.8%	8.9%	7.4%	6.7%	9.0%
2	Debt & equity	4.1%	3.2%	8.4%	12.8%	8.3%
3	Accounts receivable, investments, & cash	9.9%	8.0%	6.7%	6.7%	6.8%
4	Subsidiary/ affiliate	5.7%	6.3%	5.2%	4.6%	5.5%
5	Liabilities	6.3%	5.3%	5.4%	4.3%	5.4%

Auditor Attestations Accounting Issues

In adverse ICFR auditor attestations for FY2022, revenue recognition was the most common accounting issue that contributed to the conclusion that ICFR was not effective. Revenue recognition issues were identified in 23.3% of all adverse auditor attestations and have remained the number one accounting issue in ICFR auditor assessments for the past five years. The second most common issue expressed by auditors was related to accounts receivable, investments, and cash, cited in 12.1% of reports.

Accounting issues related to inventory and long-term assets (including goodwill, intangibles, and PPE) were each identified in 11.7% of adverse ICFR auditor assessments in FY2022. The percentage of adverse disclosures citing inventory issues has increased while long-term asset issues have remained stagnant.

Top 5 Accounting Issues in Adverse ICFR Auditor Attestations

Rank based on percent of total adverse disclosures referencing issue

Rank	Issue	2018	2019	2020	2021	2022
1	Revenue Recognition	35.4%	29.6%	28.3%	21.1%	23.3%
2	Accounts receivable, investments, & cash	21.4%	14.6%	7.2%	12.7%	12.1%
3	Inventory, vendor, cost of sales	12.8%	8.1%	11.8%	10.3%	11.7%
4	Long-term assets	10.3%	11.7%	10.5%	11.7%	11.7%
5	Liabilities	21.0%	14.6%	12.5%	8.5%	10.1%

Management-Only Reports Accounting

The most common accounting issue cited in adverse ICFR management-only reports for FY2022 concerned debt, warrant, or equity accounts. This issue was cited in 9% of all management-only ICFR assessments for FY2022 and has been the number one accounting issue for smaller companies for the last three years.

The second most common issue that led to ineffective ICFR was related to revenue recognition, cited in 6.6% of management-only reports. Ranking fourth in FY2020 and 2021, the total number of adverse disclosures citing revenue recognition issues increased 47% in FY2022.

Top 5 Accounting Issues in Adverse ICFR Management-Only Reports

Rank based on percent of total adverse disclosures referencing issue

Rank	Issue	2018	2019	2020	2021	2022
1	Debt & equity	3.7%	3.2%	8.3%	13.6%	9.0%
2	Revenue Recognition	4.9%	4.7%	4.8%	4.5%	6.6%
3	Accounts receivable, investments, & cash	7.6%	6.6%	6.7%	5.9%	5.9%
4	Subsidiary/ affiliate	5.3%	5.5%	5.1%	4.9%	5.3%
5	Liabilities	3.7%	3.3%	4.6%	3.7%	4.7%

COMPANY SIZE

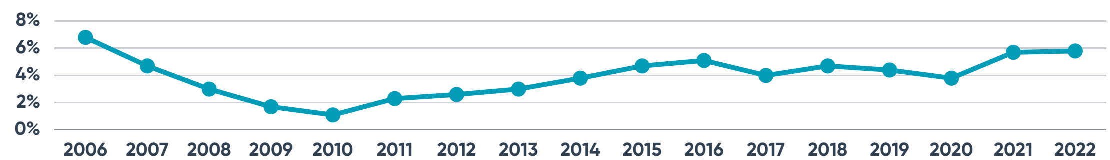
The following sections of the report analyze trends across all management reports on ICFR. Analyzing these reports is representative of the entire population, as all companies are required to issue at least a management report. There are negligible differences between ICFR conclusions in management reports that are accompanied by an auditor report.

Adverse ICFR Disclosure Rate

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Large Accelerated	6.8%	4.7%	3.0%	1.7%	1.1%	2.3%	2.6%	3.0%	3.8%	4.7%	5.1%	4.0%	4.7%	4.4%	3.8%	5.7%	5.8%
Accelerated	12.9%	10.8%	8.9%	5.8%	5.5%	6.5%	6.1%	7.6%	9.6%	9.2%	9.7%	8.6%	11.6%	12.7%	9.6%	12.9%	17.7%
Non-Accelerated	19.0%	24.8%	26.9%	27.9%	29.8%	32.0%	34.3%	37.1%	39.5%	38.9%	39.4%	40.3%	41.9%	41.1%	36.7%	41.1%	38.0%

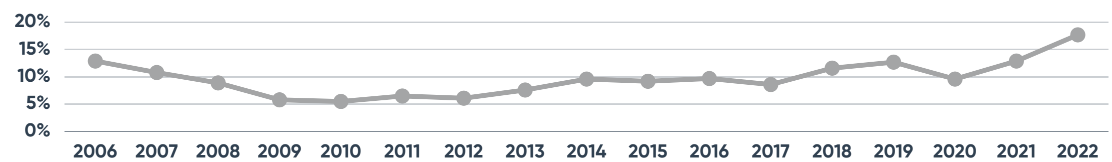
Non-accelerated filers have historically seen significantly higher adverse ICFR disclosure rates than larger companies. In FY2022, both accelerated and large accelerated filers experienced an increase in adverse disclosure rates. Conversely, the adverse disclosure rate for non-accelerated filers saw a 3.1 percentage point decline in FY2022.

Large Accelerated Filers



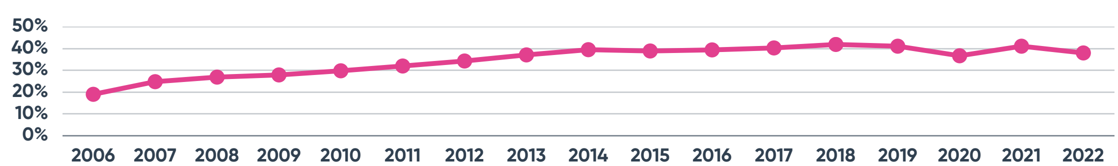
The number of large accelerated filers that filed an adverse ICFR disclosure decreased to 141 in FY2022, a 2.8% decline from FY2021. Additionally, the total number of ICFR assessments filed by large accelerated filers decreased by 4% in FY2022 to 2,451. These changes resulted in a 0.1 percentage point increase in the adverse disclosure rate for large accelerated filers to 5.8% in FY2022.

Accelerated Filers



The number of accelerated filers that filed an adverse ICFR disclosure in FY2022 increased to 159, up 56% from FY2021. Simultaneously, the total number of accelerated filers that filed an ICFR management report increased by 13% in FY2022 to 897. These changes resulted in a 4.95 percentage point increase in the adverse disclosure rate for accelerated filers to 17.7% in FY2022, the highest seen over the 17-year period.

Non-Accelerated Filers



The number of non-accelerated filers that filed an adverse ICFR disclosure in FY2022 increased to 1,428, up only 1% from FY2021. Additionally, the total number of non-accelerated filers that filed an ICFR management report increased by 9% in FY2022 to 3,757. These changes resulted in a 3.1 percentage point decrease in the adverse disclosure rate for non-accelerated filers to 38% in FY2022.

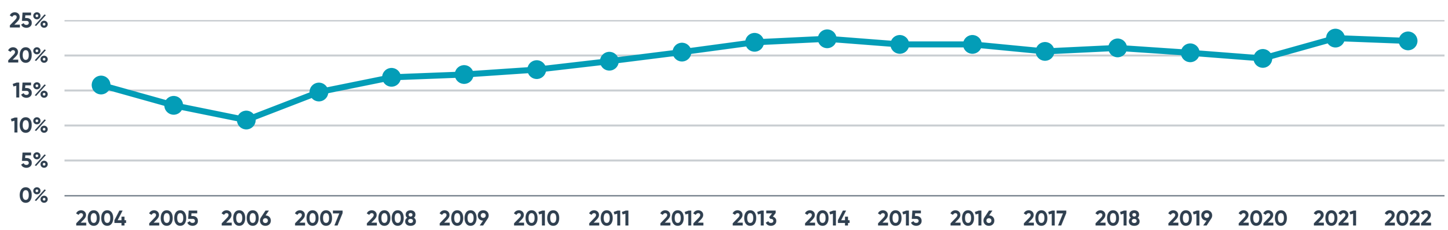
COMPANY LOCATION

Adverse ICFR Disclosure Rate

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
United States	15.8%	12.9%	10.8%	14.8%	16.9%	17.3%	18.0%	19.2%	20.5%	21.9%	22.4%	21.6%	21.6%	20.6%	21.1%	20.4%	19.6%	22.5%	22.1%
Foreign	-	-	10.8%	22.7%	23.1%	24.7%	26.1%	25.4%	24.3%	26.2%	27.2%	25.5%	27.5%	28.1%	29.5%	28.8%	31.0%	33.8%	33.7%

Foreign companies have historically seen higher rates of adverse ICFR disclosures than companies in the US. During FY2022, foreign companies had an 11.6 percentage point higher adverse disclosure rate than US companies, the largest difference seen over the 19-year period. The adverse ICFR disclosure rate for companies headquartered in both the US and abroad experienced a slight decrease in FY2022.

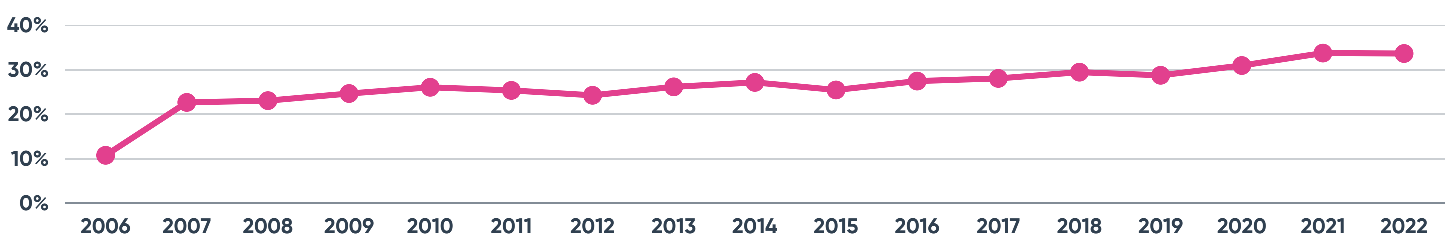
United States



Adverse ICFR disclosure rates for US filers have increased overall since the implementation of SOX. In FY2021, adverse disclosures increased by 20%, while total SOX disclosures increased by only 5%. This resulted in a 2.9 percentage point increase in the adverse disclosure rate and the highest rate seen over the 19-year period for US filers at 22.5%.

The number of US-based filers that filed an adverse ICFR disclosure for FY2022 increased by 2% from FY2021 to 1,277. Similarly, the total number of US SOX disclosures increased by 4%. This resulted in the adverse disclosure rate decreasing to 22.1% in FY2022, a 0.4 percentage point decline from FY2021.

Foreign

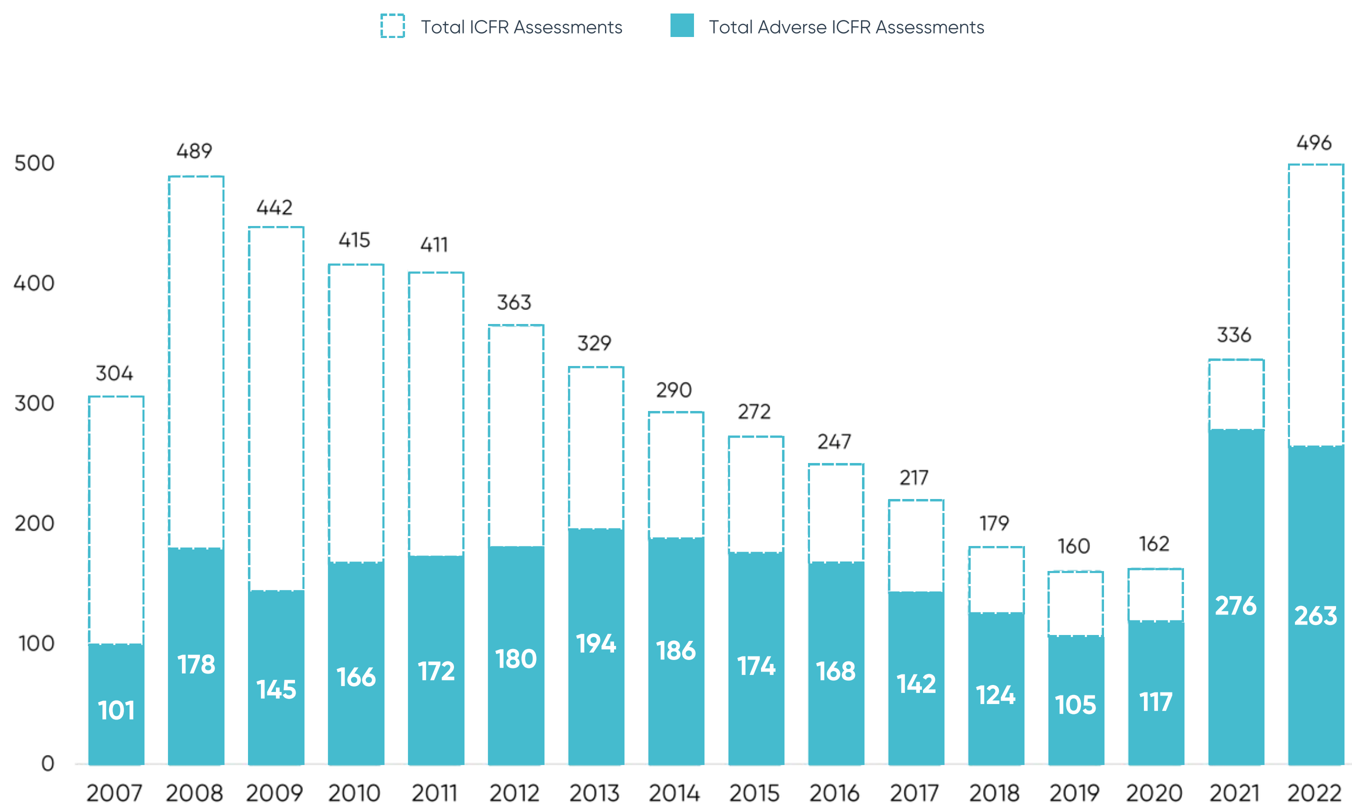


Foreign filers were not required to file any ICFR assessments until July 2006. Since then, the adverse ICFR disclosure rate for foreign filers has followed an overall upward trend. In FY2021, the adverse disclosure rate reached its peak, with 33.8% of foreign filers issuing an adverse ICFR assessment. During FY2022, the total number of foreign-based companies that filed an adverse disclosure increased 8% to 463. Similarly, the total number of foreign SOX disclosures increased by 8%. Consequently, the adverse disclosure rate for foreign filers remained nearly unchanged, dropping only 0.006 percentage points in FY2022.

SPECIAL PURPOSE ACQUISITION COMPANIES (SPAC)

This section is an analysis of management reports filed for companies classified as blank checks and/or shell companies.

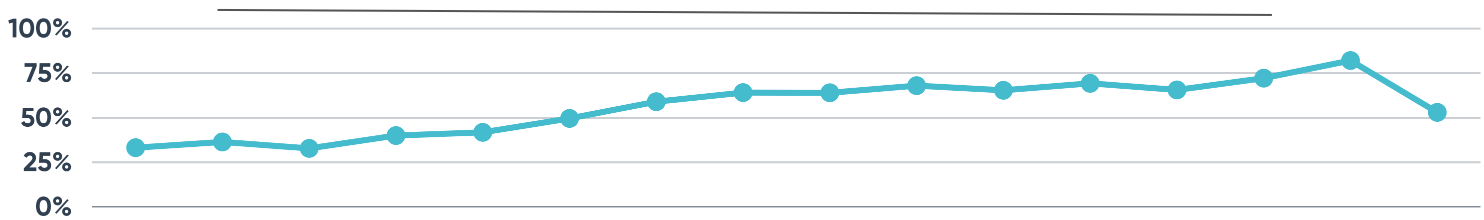
Total SPAC ICFR Assessments



Since FY2008, the total number of ICFR disclosures filed by Special Purpose Acquisition Companies (SPACs) has steadily declined. This trend began to reverse during FY2020, at the beginning of the SPAC boom. In FY2021, total SPAC ICFR disclosures increased by 107%, while total adverse disclosures increased by 136%. This led to the highest adverse disclosure rate for SPACs seen over the 16-year period at 82.1%.

The total number of SPACs that filed an ICFR assessment increased again in FY2022 to 496, representing a 48% increase from FY2021. Conversely, the total number of SPACs that filed an adverse disclosure during FY2022 decreased by 5% to 263 companies. This led to a dramatic decline in the adverse ICFR disclosure rate of SPACs to 53% in FY2022. This is a 29.1 percentage point decrease from FY2021, the steepest decline in the adverse disclosure rate for SPACs seen over the 16-year history.

Adverse ICFR Disclosure Rate of SPACs

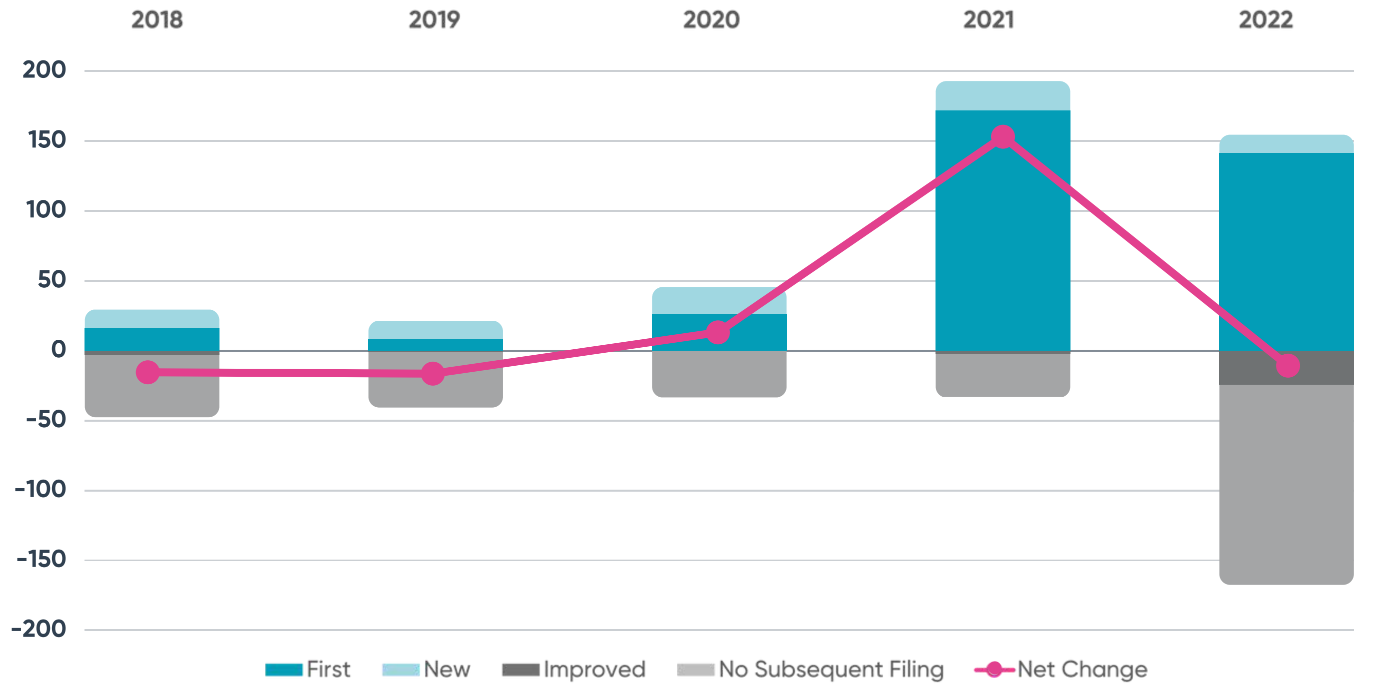


2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
33.2%	36.4%	32.8%	40.0%	41.8%	49.6%	59.0%	64.1%	64.0%	68.0%	65.4%	69.3%	65.6%	72.2%	82.1%	53.0%

CHANGES IN ADVERSE SPAC ASSESSMENTS

This section looks at what contributed to the increase and attrition (decrease) in the number of adverse SPAC disclosures year-over-year.

Changes in Adverse SPAC ICFR Disclosures



Adverse SPAC ICFR disclosures experienced a net decrease of 13 disclosures in FY2022. Contributing to this net change was the addition of 154 new adverse disclosures and the attrition of 167 adverse disclosures between FY2021 and 2022.

During FY2018 and 2019, there was a greater amount of adverse disclosure attrition than increases, resulting in negative net changes each year. However, this trend changed at the start of the global pandemic in FY2020. During this time, adverse SPAC ICFR disclosures saw a net increase of 12.

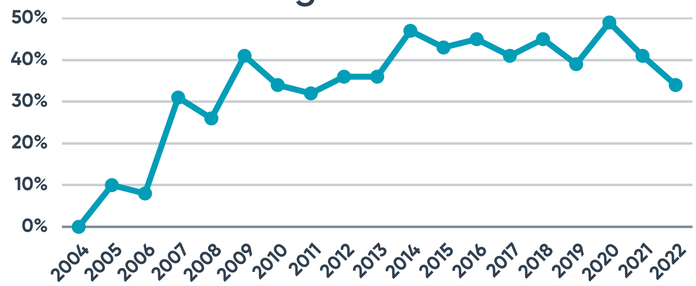
FY2021 saw a spike in adverse ICFR disclosures with a net increase of 159, driven by a substantial increase in first-time adverse ICFR disclosures. The number of first-time adverse disclosures increased to 171, six times the amount seen in FY2020.

Although first-time adverse disclosures remained high during FY2022, companies that had no subsequent filing the year after an adverse ICFR assessment spiked to 143. Of all SPACs that had an adverse disclosure in FY2021, 52% did not file an ICFR assessment in FY2022. Additionally, the number of companies with improved adverse assessments grew twelvefold from FY2021.

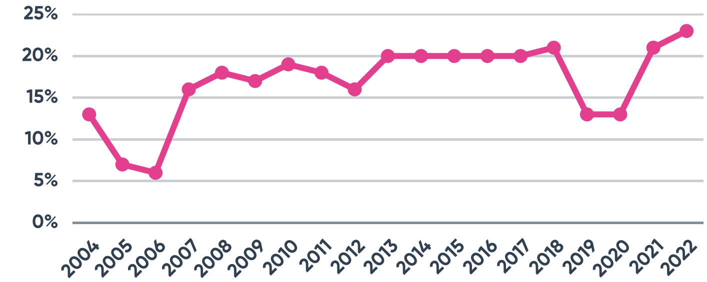
INDUSTRY

Adverse ICFR Disclosure Rate

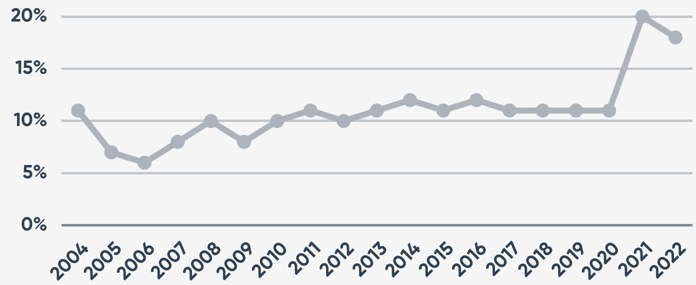
Agriculture



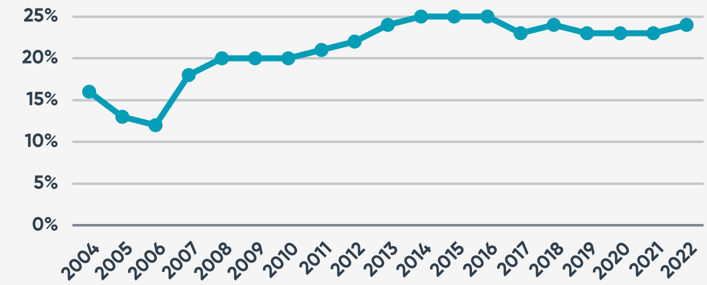
Construction



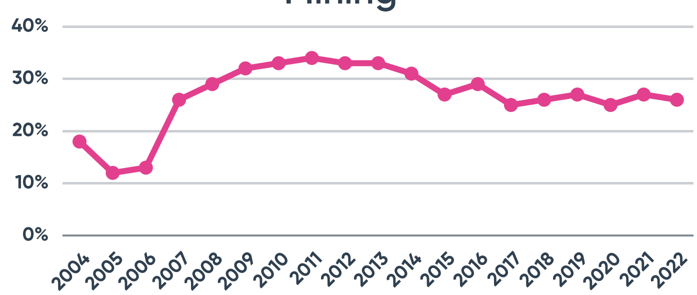
Finance



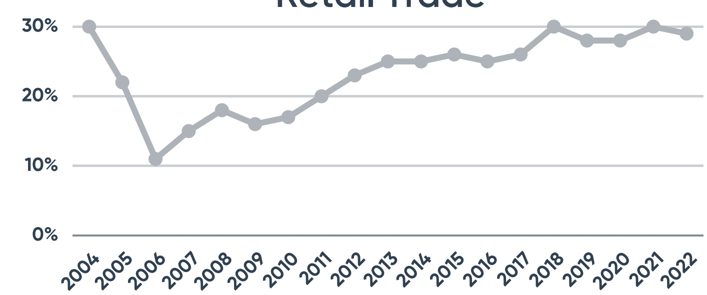
Manufacturing



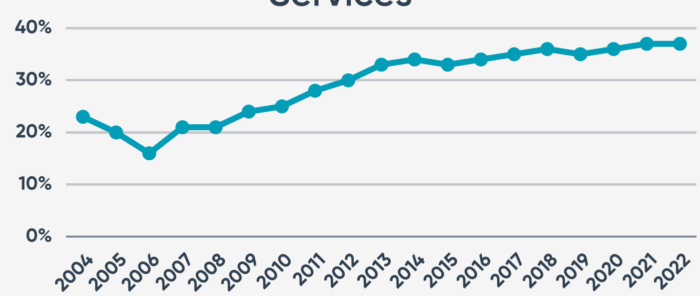
Mining



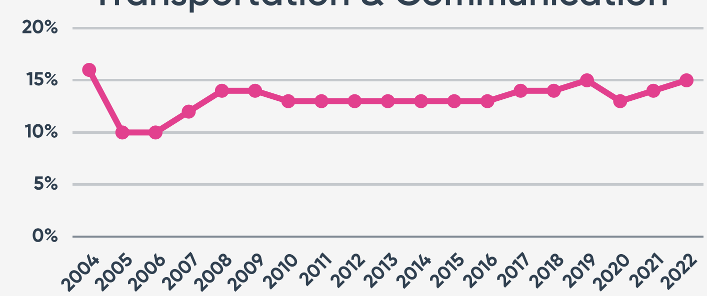
Retail Trade



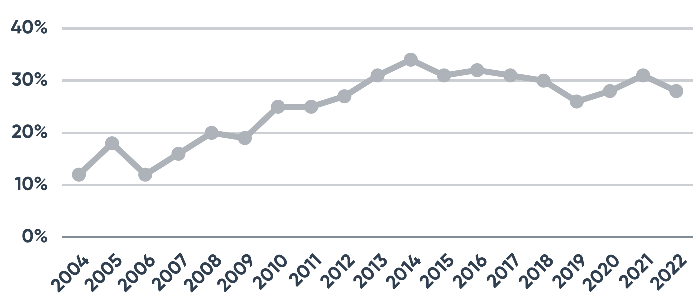
Services



Transportation & Communication



Wholesale Trade

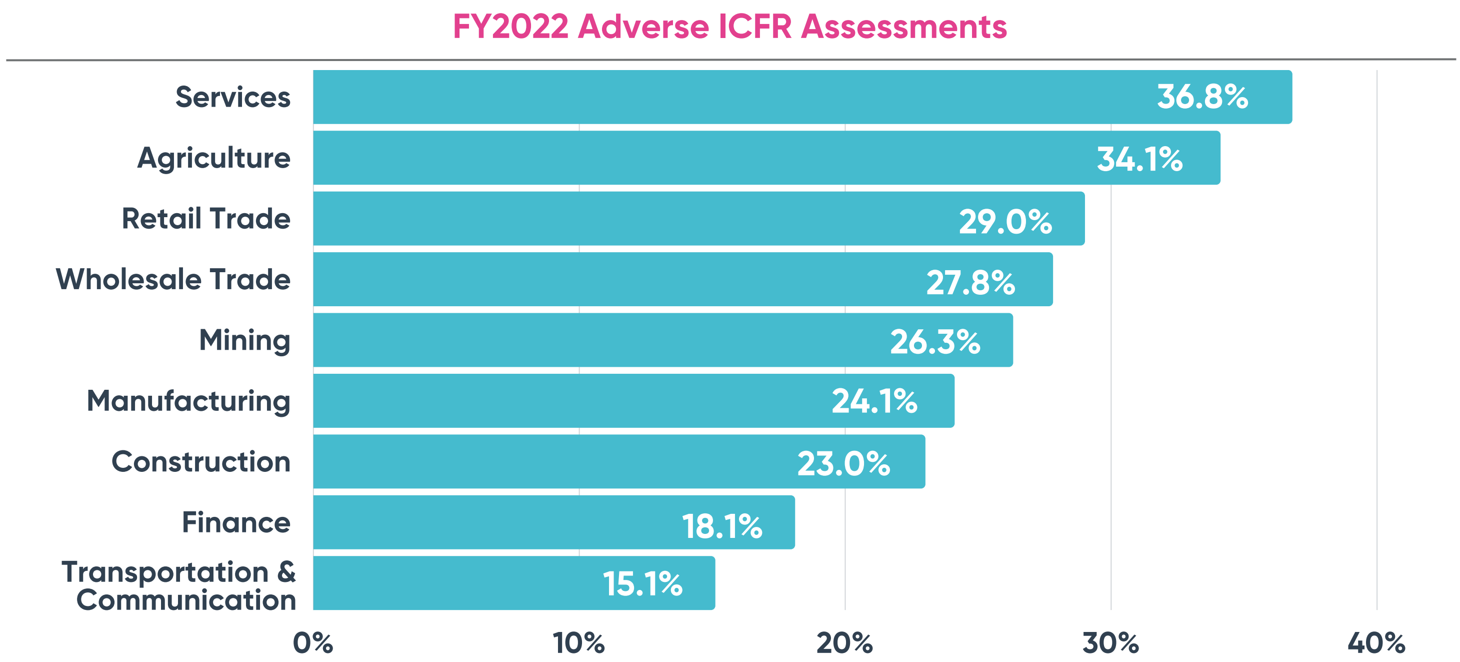


Finance Industry

In FY2021, the adverse ICFR disclosure rate in the finance industry spiked to 19.9%, representing a 9% increase from FY2020. This increase was primarily due to the SPAC boom, which comprised 61% of total adverse ICFR disclosures in finance for FY2021.

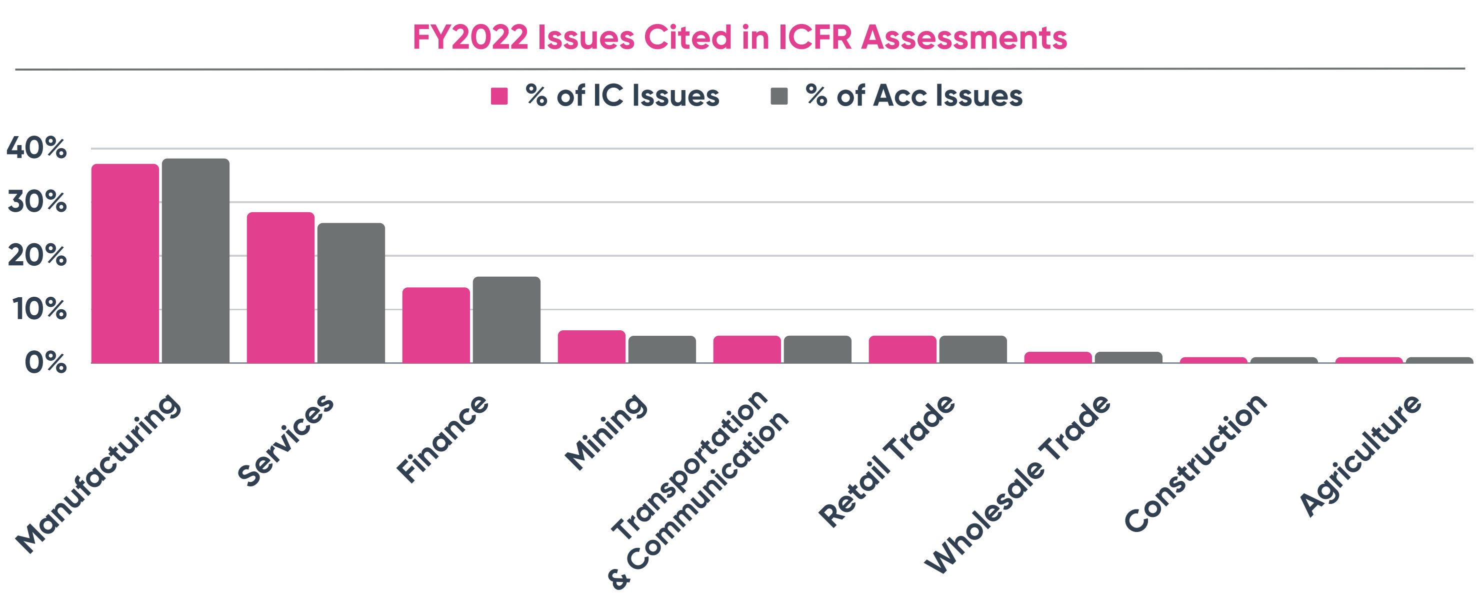
In FY2022, total finance ICFR disclosures increased to 1,686, while adverse ICFR disclosures decreased to 306. This resulted in an 18.1% adverse disclosure rate for finance companies.

FY2022 INDUSTRY



In FY2022, the service industry experienced the highest percentage of adverse ICFR disclosures. The total number of adverse ICFR disclosures in this industry increased to 468 in FY2022, representing a 6% increase from FY2021.

In FY2022, 22% of companies cited five or more internal control issues. The highest count was for a manufacturing company, Faraday Future Intelligent Electric Inc, with twelve internal control weaknesses disclosed. Contrarily, only 2% of companies had cited over five different accounting issues in their ICFR assessments. The highest number of accounting issues was for another manufacturing company, Cresco Labs Inc, with nine different accounting issues cited in their FY2022 ICFR assessment.



DATABASE OVERVIEW

The Ideagen Audit Analytics Internal Control database includes data from more than 70,000 audit reports and 130,000 management reports disclosed by over 18,000 SEC public registrants since November 2004.

The database employs a taxonomy (issue classification) of 28 different accounting error categories (e.g., Cash Flow Statement, Tax, Revenue Recognition, Intangible Assets, etc.) and more than 21 different control error categories (e.g. Inadequate Disclosure Controls, Journal Entry, Segregation of Duties, etc.). Search results from this level of granularity can be filtered by other demographic data such as industry, filer status, location, and audit firm.

The relational nature of the database allows researchers to introduce and compare internal control search results into other data sets, such as financial restatements, accelerated filer status, legal exposures, director and officer changes, auditor changes, audit fees, and other data populations. This content extension further allows an analyst to identify anomalies and market patterns that would not be readily apparent without performing this layered approach.

METHODOLOGY

ICFR disclosure information comes from Forms 10-K, 20-F, and 40-F. The analysis excludes 40 Act Filers. Years refer to the fiscal year end of the ICFR disclosure.

SPACs are defined as companies that are classified as Blank Checks by SIC code and/or companies that identify as a shell company.

Companies that do not identify as large accelerated or accelerated filers are classified as non-accelerated filers. This includes non-accelerated filers, smaller reporting companies, and companies that do not disclose a filer status. Companies without a determinable filer status are excluded.

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ABOUT US

Whether for market intelligence, risk management, compliance, or research and public policy, Ideagen Audit Analytics provides the highly structured data you need to make informed decisions.

Our expert team meticulously collects, organizes, and analyzes data – making it easy for our customers find what they need to know. We are trusted to simplify the complex; to illuminate trends; and to reveal actionable insights.

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